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THE COTTON SITUATION

Summary

A high or increasing rate of cotton mill consumption continued in a number of European countries during the past month. A high but declining rate in the United States, restricted consumption in central Europe, greatly increased exports of American cotton, and additional sales of 1938 loan cotton were other important developments in the cotton situation during the month.

Domestic cotton mill activity declined somewhat during January but remained exceptionally high. The 653,000 bales consumed by domestic mills in December were the second largest monthly total on record and one-sixth larger than in December 1938. From August through December consumption established a new record high. High prices of competing fibers and large cotton textile export sales are favorable to a continued high rate of consumption. The downturn of domestic industrial activity which has been evident since the latter part of December, however, may tend to reduce consumption during the next few months.

In Great Britain, Italy, France, and some of the other European countries, cotton mill consumption continued at a high level or increased somewhat during December and early January. A large proportion of the output of European cotton mills is going to fill Government orders. In the German-controlled area, however, cotton consumption apparently is being drastically restricted as a result of the shortage of raw cotton.

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In Japan, mill consumption has recently increased somewhat along with a marked increase in cotton cloth exports. During the past 5 weeks exports of American cotton have been $1\frac{1}{2}$ to 4 times the exceptionally small exports in the corresponding weeks last season. Exports in most of this period about equaled or exceeded the more favorable level of 2 years earlier. From August 1 through January 25, exports of nearly 3,800,000 bales were about three-fourths cent larger than the small exports during the corresponding period last season. Up to January 25, registrations of sales and deliveries of American cotton for export payments totaled 5,870,000 bales. During the 4 weeks ended January 25, such registrations totaled 300,000 bales.

Up to January 25 requests for the release of more than 800,000 bales of the 1938 loan cotton have been received by the Commodity Credit Corporation this season. Trade reports indicate that farmers had sold possibly $1\frac{1}{2}$ to $2\frac{1}{2}$ times this quantity of their loan cotton. Such a total would be equivalent to a substantial proportion of the supply of American cotton not under Government loan or held by the Government.

The increased supply of cotton outside of the loan stocks and the slight decline in recent weekly trade indexes of cotton mill activity and industrial production may have contributed to the recent decline in cotton prices. Along with these developments, there was softening of a number of other commodity prices and a further decline in unfilled orders for cotton textiles. The recent decline in cotton prices to January 23 amounted to a drop of nearly 1 cent per pound from the $2\frac{1}{2}$ -year high reached on December 13. By January 26 they had recovered about $\frac{1}{2}$ cents and were nearly 2 cents above both the average for January 1939 and for prices just prior to the outbreak of war in Europe last September.

PRICES

Domestic prices decline but continue well
above prices a year earlier

Following the marked fluctuations during December, domestic cotton prices varied within a comparatively narrow range between December 26 and January 20. During this period, the 10-market average of Middling 7/8 inch ranged between 10.63 and 10.93 cents. During the preceding 30 days the range was between 9.39 and 11.11 cents. On January 22 and 23, however, prices in these markets dropped more than $\frac{1}{2}$ cent, but recovered most of this loss by January 26. The average price in these markets on January 26 of 10.42 cents was almost 2 cents above the average for January last year. This net advance was also about the same as that which has occurred since the outbreak of the European war, spot prices on September 1 having been about the same as the January 1939 average.

A number of factors have contributed to the material net advance in prices both as compared with a year earlier and as compared with the last few days prior to the outbreak of the war in September. The more important of these appear to be: (1) the large sales of cotton goods by domestic manufacturers following the outbreak of the war, apparently in anticipation of higher prices, (2) sharply increased domestic business activity, (3) exceptionally small stocks of raw cotton on hand at the beginning of the current season in many foreign consuming countries, (4) the desire of foreign countries to accumulate above-normal stocks as a war reserve, (5) the domestic export-subsidy program, and (6) apparently substantial investment or speculative buying of cotton, particularly in India and Great Britain, as a protective measure against anticipated increases in commodity prices and living costs.

Liverpool prices show further advance, now highest
in 2 to 2½ years

Cotton prices in the United States reached a 2½-year high on December 13; and have since been somewhat lower. In Liverpool, however, spot prices of American and most of the important foreign growths as of January 5, in terms of British currency, were higher than prices on December 13. Despite some decline after January 5, Liverpool prices of practically all of these growths were higher on January 26 than at any time prior to recent weeks for about 10 years. They were about $1\frac{1}{2}$ to nearly 2 times as high as prices in January 1939 and August 1939.

A number of factors have contributed to these relatively high Liverpool prices as expressed in terms of British currency. These factors include: (1) several of the same factors mentioned above as contributing to the advance in United States cotton prices, (2) the decline in the gold or foreign exchange value of the pound sterling, and (3) the increased cost of transferring cotton from producing countries to Great Britain. The gold value of the British pound sterling on January 19 was only about 25 percent of the January 1939 average, which was approximately the same as in August 1939. On January 24, the ocean freight rates plus ordinary marine insurance and war risk insurance on cotton from New Orleans to Liverpool were $3\frac{1}{2}$ to 4 times as high as in August when they amounted to about $\frac{1}{2}$ cent a pound which were not materially from those existing for a number of years before that.

Liverpool prices of most foreign growths have continued relatively high in comparison with American during the past few weeks. Since late December, prices of Egyptian Uppers have increased considerably in relation to American Middling Fair Stanle (approximately 7/8 inch). On January 19, prices of most of the important foreign growths were higher in relation to American than for many months and in some instances the highest for 4 years.

Table 1.- Cotton: Spot price per pound, specified growths at Liverpool and New Orleans, specified periods

Season month or day	Liverpool								New Orleans	
	American	Indian	Egyptian	Brazilian	American	Indian	Egyptian	Brazilian	American	Indian
	Mid- dling 7/8 inch	Low	Ac- tual	of Am- erican	Ac- tual	of Am- erican	Ac- tual	of Am- erican	Ac- tual	of Am- erican
	: : Mid- : dling : 7/8 : inch	: : Low : Mid- : dling : 7/8 : inch	: : Ac- : tual : erican	: : of Am- : erican	: : Ac- : tual : erican	: : of Am- : erican	: : Ac- : tual : erican	: : of Am- : erican	: : Ac- : tual : erican	: : of Am- : erican
	Cents	Cents	Cents	Percent	Cents	Percent	Cents	Percent	Cents	Cents
10-yr. av.:										
1927-28										
to 36-37	14.50	13.60	11.19	78.0	17.12	117.9	14.08	97.7	12.65	1.85
1936-37	14.62	13.16	10.87	74.4	17.40	119.0	14.12	96.6	12.79	1.83
1937-38	10.31	8.78	7.96	77.1	13.10	126.7	10.18	98.7	8.79	1.52
1938-39	10.15	8.71	7.14	70.4	11.80	116.5	9.63	94.9	8.73	1.42
1938-39										
Feb.	10.02	8.55	6.95	69.4	11.56	115.4	9.53	95.1	8.60	1.42
Mar.	10.17	8.71	6.85	67.4	11.58	113.8	9.68	95.2	8.69	1.48
Apr.	9.67	8.21	7.02	72.6	10.90	112.7	9.19	95.0	8.61	1.06
May	10.55	8.97	7.45	70.6	11.08	105.0	9.83	93.2	9.30	1.25
June	11.04	9.38	7.61	68.9	11.47	103.9	10.18	92.2	9.45	1.59
July	10.61	8.95	7.31	68.9	11.43	107.7	9.85	92.8	9.37	1.24
1939-40										
Aug.	10.16	8.53	7.38	72.6	11.35	111.7	9.37	92.2	8.95	1.21
Sept.	11.10	9.69	8.47	76.3	12.37	111.4	10.60	95.5	9.02	2.08
Oct.	10.63	9.39	8.39	78.9	12.00	112.9	10.43	98.1	8.92	1.71
Nov.	11.38	10.53	9.24	81.2	12.40	108.9	11.32	99.4	9.40	1.98
Dec.	13.82	13.02	11.43	82.7	15.44	111.7	13.82	100.0	10.64	3.18
Dec. 1	12.90	12.17	10.66	82.6	13.80	107.0	12.90	100.0	9.93	2.97
8	13.33	12.59	11.01	82.6	14.84	111.3	13.33	100.0	10.26	3.07
15	14.05	13.32	11.57	82.3	15.74	112.0	14.05	100.0	10.99	3.06
22	14.45	13.71	11.99	83.0	16.39	113.4	14.45	100.0	10.92	3.53
29	14.33	13.59	11.84	82.6	16.34	114.0	14.33	100.0	11.12	3.21
Jan. 5	15.18	14.45	12.78	84.2	17.73	116.8	15.18	100.0	11.09	4.09
12	14.81	14.06	12.22	82.5	17.13	115.7	14.81	100.0	10.78	4.03
19	14.46	13.80	12.00	83.0	17.20	118.9	14.54	100.6	10.82	3.64

Compiled from reports of the Liverpool Cotton Exchange except for the last 3 weeks which are from cables to the Bureau of Agricultural Economics or from reports of the New York Cotton Exchange. Prices were reported in pence per pound and converted to cents per pound at current rates of exchange.

EXPORTS

UNITED STATES: Exports for the season to date
up 75 percent

The 3,143,000 running bales of American cotton exported from August through December totaled 65 percent more than in the corresponding period last season but slightly less than in the corresponding period of 1937-38. Despite the marked increase over the unusually small exports of last season, the total for the first 5 months of the current season was approximately 600,000 bales or 16 percent less than average exports for these months during the 10 years ended 1937-38. With the exception of Japan and Germany, exports to all of the larger cotton-importing countries have been considerably larger so far this season than during the like period last season.

In December, total domestic exports of 807,000 bales were more than twice as large as the total for December last season and slightly larger than in December 1937. Trade reports indicate that during the 5 weeks ended January 25 exports continued from 1-1/2 to 4 times as large as in the same period a year earlier. In most of the past few weeks exports about equaled or exceeded those of the corresponding weeks of 1937-38. The 3,794,000 bales of American cotton exported up to January 25 exceeded those of a year earlier by 75 percent. Up to January 25, registration of sales and deliveries of cotton for export totaled 5,870,000 bales. This represents an increase in such registrations in the 4 weeks ended January 25 of 304,000 bales.

FOREIGN COTTON: Exports from India smaller
from Egypt larger

Exports from Egypt during December were 15 percent larger than in the corresponding period in 1938 and from August through December were 18 percent larger than in the first 5 months of last season. The increase for the 5-month period to the United Kingdom and France was greater than the increase in the total. The increase to these two countries much more than offset the reduced exports to the German-controlled area.

In November, exports from India were 37 percent less than in November 1938, and for the 4 months, August through November, total exports from India were 11 percent less than during the like period the preceding season. Exports to the United Kingdom during this 4-month period, however, were 53 percent larger than in the first 4 months of 1938-39. As a result of the discontinuance of exports to Germany since the outbreak of the war, shipments to Germany since August 1 were 86 percent less than shipments during the first 4 months of last season.

From August through November, total exports from Brazil of 375,000 bales were 13 percent less than the total for the first 4 months of last season, but larger than for any corresponding period prior to 1937-38. In November exports were 69 percent less than in November 1938.

Cotton: Exports from specified countries, average 1928-29 to
1937-38, and seasons 1937-38 to date

Country of origin and destination	December					August to December				
	10-yr.: av. : 1928-29: 1937	10-yr.: av. : 1928-29: 1937	10-yr.: av. : 1928-29: 1937	10-yr.: av. : 1928-29: 1937	10-yr.: av. : 1928-29: 1937	10-yr.: av. : 1928-29: 1937	10-yr.: av. : 1928-29: 1937	10-yr.: av. : 1928-29: 1937	10-yr.: av. : 1928-29: 1937	10-yr.: av. : 1928-29: 1937
	1937-38:	1937-38:	1937-38:	1937-38:	1937-38:	1937-38:	1937-38:	1937-38:	1937-38:	1937-38:
	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	running bales	run. bales	run. bales	run. bales	Per- cent	run. bales	run. bales	run. bales	run. bales	Per- cent
United States to:										
Germany	137	105	25	0	---	740	504	169	28	16.
United Kingdom:	178	244	51	163	319.6:	743	988	244	954	391.
France	100	126	32	67	209.4:	449	539	273	309	113.
Italy	70	62	37	94	254.1:	293	280	151	243	160.
Spain	22	0	0	61	---	110	0	2	168	8,400.
Belgium	21	28	9	41	455.6:	84	112	52	121	232.
Canada	28	23	13	44	338.5:	110	122	117	176	150.
Japan	190	36	113	124	109.7:	758	120	457	422	92.
China	38	0	14	101	721.4:	142	1/	21	214	1,019.
Other countries:	67	127	74	112	151.4:	301	520	416	508	122.
Total	851	751	368	807	219.3:	3,730	3,185	1,902	3,143	165.
Egypt to										
United Kingdom:	73	67	48	80	166.7:	268	271	192	285	148.
France	26	37	16	38	237.5:	96	131	66	107	162.
United States :	10	4	4	4	100.0:	38	18	14	33	235.
Germany	17	14	22	0	---	63	96	95	12	12.
Italy	14	13	13	15	115.4:	54	55	56	42	75.
Japan	14	7	18	25	138.9:	51	25	69	84	121.
British India:	9	23	9	25	277.8:	26	65	32	81	253.
Other countries:	34	42	50	20	40.0:	145	171	163	168	103.
Total	197	207	180	207	115.0:	741	832	687	812	118.
British India to:										
Japan	62	9	98	37	37.8:	241	118	354	252	71.
Italy	15	5	6	2	33.3:	58	25	24	8	33.
China	12	1	14	12	85.7:	50	22	20	84	420.
Belgium	10	7	7	2	28.6:	40	30	24	10	41.
Germany	10	3	14	0	---	45	27	43	6	14.
United Kingdom:	12	2	11	29	263.6:	45	29	55	84	152.
France	6	4	6	11	183.3:	26	11	22	19	86.
Other countries:	11	10	13	13	100.0:	40	42	51	63	123.
Total	138	41	169	106	62.7:	545	304	593	526	88.
Brazil to										
Japan	2/	0	22	2	9.1:	2/	55	111	78	70.
United Kingdom:	2/	20	30	10	33.3:	2/	82	109	91	83.
Germany	2/	67	1/	0	0:	2/	191	55	56	101.
France	2/	3	7	8	114.3:	2/	13	55	41	74.
Italy	2/	1/	7	1	14.3:	2/	4	28	16	57.
Netherlands ..	2/	1/	2	1/	---	2/	6	17	24	141.
Belgium	2/	1	3	1	33.3:	2/	5	12	13	108.
Other countries:	2/	5	15	5	33.3:	2/	28	43	56	130.
Total	42	96	86	27	31.4:	150	384	430	375	87.

Compiled from official sources. 1/ Less than 500 bales. 2/ Not available by countries.

DEMAND AND CONSUMPTION

UNITED STATES: Mill consumption continues at
near record level

Domestic manufacturers' sales of cotton textiles apparently continued well below production during most of the past month. Except for a brief period in early December, this appears to have been true for the most part for many weeks. Nevertheless, domestic cotton consumption continued at an exceptionally high level through December and early January. The 653,000 bales consumed by domestic mills in December were the second largest total for the month on record and 15 percent above the December 1938 total. Trade reports indicate that mill activity, adjusted for seasonal variation, declined somewhat since mid-December, but continued high. From August through December, domestic mill consumption of 3,312,000 bales established a new record high and exceeded that of the corresponding period last season by 18 percent.

The high consumption so far this season was due to improved economic conditions, the marked increase in prices of some of the important competing fibers, and increased cotton textile exports or sales for exports. In December the United States index of industrial production of 128 was 25 points higher than in August and 31 points above the average for the 12 months ended July 1939. The prices of both jute and burlap were about twice as high in December as in August, and the prices of representative qualities of wool, silk, and sisal, were from 45 to 60 percent higher. Up to January 25, sales and deliveries of cotton products for export payments under the Department's cotton and cotton textile export payment program contained the equivalent of approximately 325,000 bales of raw cotton. During the 1938-39 season, the estimated cotton content of the cotton textiles actually exported amounted to about 200,000 bales. The prospective increase in cotton textile exports in the current season is due in part to the Government payments on cotton textile exports, in part to increased purchases by European countries for war or civilian defense purposes, and in part to reduced competition from European cotton textiles in non-European markets.

Some of the factors contributing to the high level of cotton consumption so far this season may continue during the remainder of the season. But should domestic business activity decline during the next few months, as is expected, cotton mill activity is likely to drop materially below the recent high levels.

EUROPE: Cotton consumption continues high in a number
of countries, greatly restricted in the German area

In Great Britain, cotton spinning mill activity during December and the first three weeks of January was maintained at approximately full capacity. In late December the cotton Controller announced that the importation of French textiles would be permitted on a larger scale than formerly, thus indicating that British mills were unable to meet current demands for cotton textiles. According to trade reports, the British and French cotton textile production is

to be coordinated for the remainder of the war. This would suggest that activity in the French and British mills may tend to fluctuate more or less together although differences in the quality of the goods produced and in the available labor supply may influence the extent to which this is true, despite the efforts on the part of the government to coordinate the production of the industry in each of these countries.

Since about the middle of December, the British Government has materially extended its control over the cotton textile industry. During this period, the British Controller has announced regulations for the control of mill margins on yarns. Cotton Industry Control Order No. 2 of January 4 fixed spinners' margins for various yarns up to one-third less than those existing immediately prior thereto. The Controller has recently called for weekly returns from cotton mills on the purchases, stocks, and consumption of cotton and on the production, deliveries, and sales of cotton yarns. Cotton merchants have been requested to submit reports on the amount of cotton bought but still unshipped and the amount sold but still undelivered. These reports presumably form the basis of the arrangement made with the Ministry of Shipping for freight space. In the third week of January, the Controller announced that an agreement had been reached with the Ministry of Shipping to provide freight space for 100,000 bales of American cotton in February. According to reports a similar monthly allotment is expected to be made available for at least several months. Since the British Government has agreed that shipments of cotton by the Commodity Credit Corporation under the Cotton-Rubber Exchange Agreement would be withheld during the months of February, March, and April, the allotted freight space will all be available for the shipment of commercial cotton. Cotton bought prior to January 4 may also still be shipped on neutral steamers so that the amount of American cotton exported to Great Britain will not necessarily be restricted to the 100,000 bale freight quota.

Manufacturers' sales of cotton textiles during the last few weeks are reported to have been comparatively small. This is said to be due to the numerous uncertainties with respect to government regulations, and the fact that British mills in general apparently have sufficient unfilled orders already booked to cover their output for several months. British manufacturers are reported to be concerned as to whether present prices are sufficiently high to justify sales beyond the next few months because of the possibility of additional regulations and increases in manufacturing costs.

In France, most of the cotton mills were working on government orders during November, according to a report from the American Consulate at Havre. According to this report, an active demand for civilian consumption could not be entirely satisfied partly because of the slowness in releasing imported raw materials for this purpose and possibly because a number of the mills in the evacuated regions of Alsace were still closed. Most of the cotton purchases since the outbreak of hostilities have been made by a government agency which has also requisitioned existing cotton stocks and taken over spinners' contracts. This agency is no doubt operating in conjunction with the British cotton Controller.

Comparatively little information pertaining to the situation in the French cotton textile industry has been received during the last few weeks. According to a report of the New York Cotton Exchange Service, French mills recently benefited from the increased British import quota on French goods. French mills are also reported to have been booking a substantial volume of government orders. In view of the recently announced plan to coordinate the production of the French and British mills, it would seem likely that cotton consumption in France should soon increase to a high level if such a level has not already been attained.

In early December cotton mills in Holland and Belgium were reported to have been fairly active, with manufacturers' margins fairly satisfactory. At that time, as well as more recently, delays and uncertainties with respect to the arrival of raw cotton have restricted forward sales of cotton textiles. The loss of trade with the German area has adversely affected the industry in these countries. Rather large sales of cotton goods for military and civil defense purposes, however, appear to have given mills about all of the business that could be handled, particularly in view of the uncertainties with respect to the former raw material supplies. According to a recent report from Holland, to the New York Cotton Exchange Service, the mills of that country are "working at a full rate on Government and Colonial business, but new orders are currently small."

In the Scandinavian countries, uncertainties as to future developments and the prospects for raw material supplies have no doubt restricted sales of cotton textiles, particularly those other than to the government. It is not unlikely, however, that government purchases have been quite large during recent weeks. It is not known to what extent the war has interrupted deliveries of raw cotton.

Cotton mills in Italy are reported very active, with exceptionally good demand for cotton textiles from export markets. In mid-January, trade reports indicated that Italian mills were operating at capacity. The increased export demand is due in part no doubt to reduced competition from British and other belligerent textiles in non-European markets.

In the German area cotton consumption is undoubtedly being greatly restricted by the shortage of raw cotton. It is impossible to determine how much raw cotton or cotton textiles Germany is importing but every indication points to a material shortage of both in the German controlled area. As indicated last month the rationing of clothing which has been in effect since November indicates a very severe reduction in the civilian consumption of cotton-type goods.

ORIENT: Lower cotton consumption forecast for China

Difficulties in obtaining raw cotton; the reduced buying power in China, and high costs of yarn and cloth are important factors expected to further restrict cotton mill consumption in China during the current season. The office of the American Agricultural Attache at Shanghai is now estimating that because of these factors consumption of cotton by mills in China during the year ended September 1940 may be reduced to about 1,500,000 bales of 473

pounds. This is considerably less than the restricted consumption of 1,800,000 bales for October to September 1938-39 and more than 1 million bales less than was consumed in 1936-37, the year preceding the Sino-Japanese conflict.

Mill consumption in China during December was placed at 140,000 bales. In Shanghai, activity of the Japanese and British mills was about 90 percent of capacity and the Chinese owned mills about 70 percent. The mills in this area are reported to be spinning a larger percentage of finer count yarns than last year. This tends to increase activity in relation to the quantity of cotton consumed.

In Japan, consumption in November increased slightly over October and was the highest in 6 months. In both October and November mill consumption was larger than a year earlier but much smaller than in the corresponding months of 1937. Consumption in December showed a slight increase over November and materially exceeded December 1933. In view of the decreased competition from cotton textile exports from European countries since the outbreak of the European war, cotton mill consumption in Japan has been expected to increase as a result of increased exports of cotton textiles. In November, exports of cotton cloth from Japan increased about 6 percent over exports in October but were slightly smaller than in November 1938. In December, however, the 268 million square yards exported were 31 percent larger than in November and were slightly higher than the previous record high exports established in December 1936 and in May 1934. This sharp increase probably was largely due to the increased demand for cotton cloth in the European countries and to reduced competition from European produced goods in other markets.

In December, Japanese purchases of cotton were reported to have been the largest since December 1936. This was attributed to the announced reductions in the American cotton export "subsidy payments" and the prospective further reductions. Since early December, the price of American cotton in Japan has increased considerably in relation to Indian cotton. On December 2, the price of Indian Akola was only 2 to 3 percent less than that of American Strict Middling, but in late January it was about 21 percent less than American.

ACREAGE, PRODUCTION, STOCKS, AND SUPPLY

Reduction in Government-loan stocks

It was indicated last month that borrowing growers had probably sold their equity in many thousands of bales of 1938 Government-loan cotton in addition to that they had up to that time requested the Commodity Credit Corporation to release. Up to January 25, requests for the release of nearly 825,000 bales of the 1938-loan cotton had been received by the Commodity Credit Corporation since August 1. Requests for nearly 640,000 bales were received between December 21 and January 17. Cotton trade estimates, however, of the total sales of 1938-loan cotton from August 1 to mid-January range between 1,500,000 and 2 million bales, according to

the New Cotton Exchange Service. Little information has yet been received as to whether the rather sharp decline in cotton prices since the middle of January has resulted in substantial additional sales of the 1938-loan cotton. Despite the decline in prices, farmers could still obtain substantially more than enough for their cotton to pay the loan plus carrying charges. Consequently, declining prices might cause some producers to dispose of their cotton for fear of still further declines.

The indicated world supplies of "free" cotton for the current season have been increased by the extent to which borrowing producers have sold or otherwise disposed of their 1938 loan cotton. With stocks of "free" cotton as of August 1 plus the present estimate of the 1939 crop totaling about 13,700,000 bales, an increase of as much as 2 million bales would represent a material increase in the available supply of cotton not under Government loan. It is not unlikely that the increase which has occurred during recent weeks has been a factor in the price decline during this period.

